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Philip Barlow

Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: LRBC Exposure of the 2024-05-L BA Mortgage Proposal

Dear Chair Barlow:

The American Council of Council of Life Insurers (ACLI) appreciates the opportunity to submit comments on the recent LRBC exposure of BA Mortgage proposal 2024-05-L, which aims to add a new line for mortgages to LR009 specifically to address line 44 of the Asset Valuation Reserve (AVR) Equity Component.

ACLI supports the addition of a new line allowing Schedule BA “In Good Standing Affiliated Residential Mortgages All Other” to be captured in RBC calculations. However, to make these proposed changes as clear and effective as possible, we do have some recommendations that we would like to see incorporated prior to adoption and later implementation which we have outlined below.

First, we suggest that the new line be named to align with AVR Equity Component’s line 44, “Affiliated Mortgages – Residential – All Other”. We note that the proposal does not include the addition of a proposed RBC factor for this line, but we recommend that an RBC factor be inserted to ensure that mortgages set forth on this new line are treated in a consistent manner.

ACLI also recommends that a pre-tax factor of 0.68% to be applied to the statement value on the new LR009 line. This would be the same pre-tax factor that is applied to the directly held

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residential mortgages on LR004 line 2. We believe that applying a pre-tax factor of 0.68% is appropriate for the following reasons:

- The AVR Annual Statement Instructions indicate that OIA (Other Invested Assets) reserves are calculated based on the essential nature of the underlying investments. The essential nature of the investments set forth on AVR Equity Component line 44 is Residential Mortgages, which is the same as AVR Default Component line 41.
- The same AVR factors are presently applied to Residential Mortgages that are listed on AVR Default Component line 41 and AVR Equity Component line 44.
- There is already correspondence between RBC factors for affiliated mortgages on LR009 and factors on LR004.

Finally, while it is possible that the instructions already outline the reasoning for their exclusion, we recommend that regulators investigate whether the Schedule BA page would still be missing (e.g., whether AVR line 46 should be added to RBC line 15 and AVR Line 51 should be added to RBC line 19).

Thank you once again for the consideration of our comments and we look forward to additional discussion on this topic at a future LRBC session.

Sincerely,

Handwritten signatures of B Banerji, M Monahan, and Colin Masterson.

cc: Dave Fleming, NAIC